

VERMONT PENSION INVESTMENT COMMITTEE
June 25, 2013

VPIC Members Present:

STEPHEN RAUH, CHAIR

BETH PEARCE, VICE-CHAIR, Vermont State Treasurer

ROBERT HOOPER, VSERS Representative, term expiring June 30, 2016

JOSEPH MACKEY, VSTRS Representative, term expiring June 30, 2015

STEVEN JEFFREY, VMERS Representative, term expiring June 30, 2014

DICK JOHANNESSEN, Governor's Delegate, term expiring June 30, 2014

VPIC Member(s) Absent:

VAUGHN ALTEMUS, Governor's Delegate, term expiring June 30, 2014

VPIC Alternate Members Present:

KEVIN GAFFNEY, VSERS *Alternate*, term expiring June 30, 2016

THOMAS GOLONKA, VMERS *Alternate*, term expiring June 30, 2016

KAREN PAUL, *Alternate* Governor's Delegate, term expiring June 30, 2016

VPIC Alternate Member(s) Absent:

THOMAS MCCONNELL, VSTRS *Alternate*, term expiring June 30, 2013

Also attending:

Stephen Wisloski, Vermont State Deputy Treasurer

Matt Considine, CFA, Director of Investments

Katie Green, Investments Manager

Bill Griffin, Attorney General's Office

Chris Levell, Doug Moseley and Richard Pszenny, NEPC LLC

Jeff Briggs, member of the VSERS Board

Amy Johnson-Kurts, 350.org

Monica Chiren, Clerk

CALL TO ORDER:

The Chair, Mr. Rauh, called the Tuesday, June 25, 2013 meeting to order at 8:30 a.m., which was held in the 4th Floor Conference Room, 109 State Street, Montpelier, VT.

ITEM 1: **Agenda Approval, Announcements, Minutes of May 28, 2013 Regular Meeting**

The Chair, Mr. Rauh, briefly reviewed the agenda and declared the agenda approved. Mr. Hooper indicated he will communicate with Ms. Johnson relative to the upcoming conference he will be attending.

On a motion by Mr. Hooper, seconded by Mr. Jeffrey, the Committee unanimously approved the minutes of the May 28, 2013, Regular Meeting, as submitted.

ITEM 2: Director of Investments Report and Action Items

- **Contract Updates, Amendments and Renewals**
- **Rebalancing Analysis/Recommendation**
- **Draft of Annual Attendance and Education Reports for Legislature**
- **Review May Flash Report**

Mr. Considine indicated as of May 31, 2013 the total VPIC assets under management were \$3.71 billion. Mr. Considine indicated as of June 30th the VPIC's portfolio allocation is projected to be 34.5% equities, 31.7% fixed income, 13.7% alternatives and 20.0% multi-strategy, compared to target allocations of 31.5%, 33%, 15.5% and 20% respectively.

Mr. Considine discussed with the Committee the findings of the rebalancing research staff conducted and recommended that VPIC keep the rebalancing on a semi-annual basis.

On a motion by Mr. Mackey, seconded by Mr. Johannesen, the Committee unanimously agreed to replace the following line in the investment guidelines: "The VPIC Portfolio will routinely be re-balanced on a semi-annual basis, at or about the latter half of March and September, each year" with the following sentences: "Actions to initiate the rebalancing of the VPIC Portfolio will be taken on a semi-annual basis, during the latter half of March and September, each year using data at months-end for February and August, respectively. Asset class or manager deviations from the target policy of greater than 10 basis points will be candidates for rebalancing."

The Committee discussed the cash flow and how that would affect the rebalancing. There was a discussion concerning the liquid asset class.

(Ms. Pearce, Mr. Gaffney and Ms. Paul arrived during this agenda item.)

Mr. Considine indicated staff communicated with AQR and PIMCO concerning the May market performance and discussed the outcome of that communication with the Committee.

Ms. Green reviewed with the Committee the status of the second quarter contract reviews and indicated the Wellington GAA, DAS and Small Cap are out for signature, the NEPC and KDP contracts have been signed and filed, and that the Schroder contract is awaiting the signature by the Secretary of Administration and the VPIC Chair. Ms. Green indicated the BERS one-year contract extension would be coming up at the third quarter

contract review. The Committee discussed the BERS contract. It was indicated this item would be deferred until the next meeting when additional information would be available.

(Mr. Griffin left the meeting during this agenda item.)

(Mr. Briggs arrived during this agenda item.)

Mr. Considine indicated two securities were added to the State Street SSgA Index. Mr. Considine indicated State Street is required to notify VPIC if the securities are on the MacBride list. It was indicated this would be discussed further during the next legislation session.

Mr. Considine reviewed with the Committee members the draft attendance and conference report and requested if there were any changes or additions to please notify him.

It was indicated that Mr. McConnell was resigning from the VSTRS Board and that the VSTRS Board would be appointing someone to be the new VPIC VSTRS Alternate.

Ms. Pearce indicated she would need to leave at 11:00 a.m., but that she would call into the VPIC meeting this afternoon at 1:00 p.m.

Mr. Moseley reviewed with the Committee the May Flash Report and responded to any questions by the Committee. The Committee discussed the purpose of the up/down portfolio analysis that staff provides.

(Mr. Griffin returned to the meeting at this time.)

ITEM 3: Discussion Items/Updates

- **Vermont State Treasurer's Update**
- **NEPC Investment Manager Watch List Update: Post Advisory, Wellington EMD**

Ms. Pearce indicated they are currently in year-end for financial reporting. Ms. Pearce indicated she conducted a presentation on GASB 67 and 68 in conjunction with the VLCT and the auditors recently. Ms. Pearce discussed GASB 67 and 68 with the Committee and the impact it would have on VMERS.

Mr. Moseley indicated there are two managers on the Watch List, Post Advisory and Wellington EMD. NEPC would discuss Post at length in the next agenda item.

ITEM 4: High Yield Fixed Income Manager Review

Mr. Moseley provided NEPC's recommendation regarding Post Advisory, indicating they would suggest interviewing three managers, Guggenheim, Loomis Sayles and Penn

Capital at a future meeting. Mr. Moseley reviewed with the Committee the *High Yield Fixed Income Manager Review* document. NEPC answered the questions posed by the Committee.

On a motion by Mr. Mackey, seconded by Mr. Hooper, the Committee unanimously agreed to have VPIC interview three high yield fixed income managers, Guggenheim, Loomis Sayles and Penn Capital at a future meeting.

(Ms. Pearce left the meeting at this time.)

(Mr. Golonka arrived at the meeting at this time.)

ITEM 5: Portfolio Structure and Strategy

- **Investment Philosophy and Process**
- **Investment Guidelines**

(Ms. Johnson-Kurts arrived at this time.)

The Committee discussed VPIC's investment philosophy and process. The Committee was provided the *Proposed additions to VPIC Investment Policy & Investment Manager Guidelines* document. The Committee members provided suggestions on how to revise the document. It was the consensus of the Committee they would review the document and discuss it further in the future.

The Committee discussed the Yale Endowment article that was in the Board packets.

ITEM 6: Economic and Financial Market Dashboard

Mr. Considine reviewed with the Committee the economic and financial market dashboard. The Committee discussed the positive and negative factors on the economic and financial market dashboard.

(A luncheon recess was taken from 12:00 p.m. to 12:45 p.m.)

(Mr. Jeffrey and Ms. Johnson-Kurts were not present for the afternoon session.)

ITEM 7: Real Estate Debt Manager Review

Mr. Griffin discussed with the Committee the contract screening that had been conducted with Principal and Oaktree and indicated M & G has not been spoken with.

(Ms. Pearce entered the meeting via the telephone.)

Mr. Moseley provided Ms. Pearce a summary of what had been discussed thus far relative to the real estate debt manager review. The consensus of the Committee was to

discontinue further consideration of a potential new allocation to real estate debt at this time and requested NEPC present a different approach for VPIC to consider implementing its planned increase to its real estate allocation at the August meeting.

The Chair, Mr. Rauh, briefly reviewed agenda items that would be coming up in the next several months.

ITEM 8: Public Comment/New or Other Business

None.

ITEM 9: Adjournment

The Chair, Mr. Rauh declared the VPIC meeting adjourned at 1:25 p.m.

Respectfully submitted,

Monica Chiren, Clerk